United Nations A/C.5/55/3

General Assembly

Distr.: General
15 September 2000

Original: English

Fifty-fifth session
Fifth Committee
Agenda item 125
United Nations pension system

Investments of the United Nations Joint Staff Pension Fund

Report of the Secretary-General

I. Introduction

1. The General Assembly decided in 1992 to take up pension matters biennially, in even-numbered years. The present report on the investments of the United Nations Joint Staff Pension Fund (UNJSPF) covers the period from 1 April 1998 to 31 March 2000. The investment of the assets of the Fund is the fiduciary responsibility of the Secretary-General of the United Nations, who acts in consultation with the Investments Committee, taking into account the observations on broad policy of the United Nations Joint Staff Pension Board (UNJSPB) and the General Assembly. The Investments Committee provides advice to the Secretary-General on investment strategy and reviews the investment portfolio at its quarterly meetings. The representative of the Secretary-General for the investments of the Fund has been delegated the responsibility for the management and administration of the investment of the assets of the Fund by the Secretary-General and is assisted by the staff of the Investment Management Service. All investments must meet the criteria of **safety, profitability, liquidity** and **convertibility**. These criteria have been endorsed by the General Assembly.

2. The report describes the economic and investment conditions that prevailed in the reporting period ended 31 March 2000 and provides information on the investment returns, diversification of the investments and the development-related investment of the Fund. The statistical data are based on the audited financial statements for the two calendar years 1998 and 1999 and on the unaudited appraisals ended 31 March 2000. In order to provide the General Assembly with timely information available, some data have been updated to 30 June 2000.

00-64420 (E) 091000

II. Economic and investment conditions

3. The present section reviews the economic and investment environment that prevailed during the two-year period ended 31 March 2000. Economic activities and financial markets within countries tend to follow cyclical patterns. Through diversification of its assets by currency, by geography and by type of investment, the Fund strives to benefit from the differences between markets in order to preserve the principal of the Fund and to achieve better and more stable investment returns than would otherwise be obtained. The management of the assets of the Fund has followed a relatively cautious strategy of minimizing risk in order to obtain overall positive returns over the periods.

A. Economy

4. Towards the end of the biennium, global economic growth was more synchronized than during the previous biennium, and was led by North America and Europe. The economies of Asia and the Pacific improved and the Japanese economy showed signs of sustained recovery. The environment was ideal for many financial markets because economic growth continued to be accompanied by relatively low inflation in the major economies. However, fears of rising inflation, engendered partly by the increase in the price of oil and commodities, led several central banks to tighten monetary policies. In many countries, budget deficits fell as Governments implemented tighter fiscal policies. The United States dollar remained strong during the biennium.

1. North America

5. The United States economy entered its eighth consecutive year of growth in 1999, as the gross domestic product (GDP) rose 4.2 per cent, following a 4.3 per cent increase in 1998. The Federal Reserve increased interest rates to control potential inflationary pressures, thereby creating an environment conducive to sustainable economic growth. The unemployment rate fell to 4.5 per cent in 1998 and to 4.2 per cent in 1999. Despite concerns over tightness in the labour market, inflation decreased to 1.6 per cent in 1998 and remained at 2.2 per cent in 1999. The pace of innovation, particularly in information technology, has been a major factor in the economic expansion in the United States and in changing the character of the economic cycle. After several years of restructuring and efficiency enhancement throughout the economy, productivity continued to rise. Labour productivity, in particular, rose 2 per cent in 1998-1999, substantially higher than increases in unit labour costs. The continued federal budget surpluses in fiscal year 1999 contributed to the general view that the policy of low interest rates would be sustained. The United States economy maintained a strong pace of growth in the first quarter of 2000 despite early signs of increased inflation and equity markets corrections. However, the trade deficit remains a concern. The Canadian economy also rebounded during the biennium, with GDP rising 3.0 per cent in 1998 and 4.6 per cent in 1999. Although inflation increased to 2.6 per cent in 1999, it was still among the lowest within the Group of Seven major industrialized countries.

2. Europe

6. During the second quarter of 1998, European economies continued to benefit from the restructuring that had been undertaken by many countries preparing to join the European Monetary Union. Interest rates were low. There were concerns that the financial crisis in the Russian Federation would have a big impact on Germany in particular and Europe in general, though history would show only a limited effect. The impact of the Asian recession continued into the third quarter of 1998 when European economic growth slowed further. World economies continued to show signs of weakness during the fourth quarter of 1998, prompting interest rate cuts. Company mergers accelerated and continued throughout the biennial period. In the third quarter of 1999 there were modest increases in economic activity. Exports to Asia and Eastern Europe, accounting for 30 per cent of European exports, began to rise, fuelling business and consumer confidence. In the United Kingdom of Great Britain and Northern Ireland, interest rates were raised in an effort to level off buoyant domestic demand and rising housing prices. During the fourth quarter of 1999, European economic growth accelerated, causing concern of overheating. While GDP growth for the first half of 1999 was only 1.5 per cent annualized, the figure for the second half was 4.0 per cent, signalling a dramatic acceleration backed mostly by strong exports, which were supported by the weak euro and the Asian economic rebound as well as ebullient domestic demand. Both the Bank of England and the European Central Bank raised interest rates.

7. With the advent of the new millennium there were signs of continued economic acceleration in Europe during the first quarter of 2000. In view of the extremely favourable macroeconomic outlook, the European Central Bank and the Bank of England joined the Federal Reserve's upward move of 25 basis points in interest rates, while the Swiss National Bank increased its rates by 75 basis points. Despite central bank intervention, economic data showed that the quarter ended as strongly as it had begun in Europe. In the euro zone, unemployment fell to a seven-year low of 9.5 per cent and consumer confidence reached its highest level since 1973. Robust corporate earnings reports validated the extremely favourable macroeconomic environment. The euro continued to weaken during the first quarter, closing below parity with the dollar for the first time in January 2000.

3. Asia

8. During the biennium, Asian economies experienced an export-led recovery driven by strong demand from the developed economies, including the recovering Japanese economy, for electronics and semiconductor products. This momentum was sustained through the first quarter of 2000 as monetary policy remained favourable and domestic demand rose as the benefits of the growth in exports filtered through the economy. Inflation remained subdued despite the strength of the economic rebound and currencies stabilized, helping to sustain a gradual return of confidence in the region. The rate and composition of growth were uneven across the region. GDP increased precipitously to 10.2 per cent, 5.8 per cent and 8 per cent in the Republic of Korea, Singapore and Taiwan Province of China respectively, as they were among the main beneficiaries of the global demand for electronics and semiconductors. Growth in Australia and New Zealand was abetted by the strength in global demand for commodities, which helped underpin consumer demand and growth in wages. In contrast, the economy of the Hong Kong Special Administrative Region was weak until the fourth quarter of 1999, when GDP rose 8.9 per cent as

exports and domestic demand grew and deflationary forces slowed. The property sector suffered under high interest rates caused in part by fears that the Hong Kong dollar would no longer be pegged to the United States dollar and that China would devalue its currency. Current account surpluses in the region declined, as imports rose but foreign reserves remained high owing to an increase of capital inflows.

4. Other economies

9. Developing economies in Asia reflected the performance of their larger counterparts, having been led also by a surge in exports and the growth of regional demand. China continued to restructure State-owned enterprises and strength in the export sector contributed to a 6.5 per cent rise in GDP in 1999. Industrial production in India rose and inflation was subdued, but the fiscal deficit remained high. Economic reforms were pursued and the outstanding growth area was the software sector. Philippine exports fell and the peso weakened. Latin American economies recovered and inflation in the region fell. In Eastern Europe, Hungary and Poland achieved healthy economic growth with moderated inflation. In the Czech Republic, the economic trend became more positive at the end of 1999. The Russian Federation suffered from a meltdown in the financial market after the Government defaulted on its debt and the currency was devalued in the beginning of 1998. However, the country recorded positive economic growth in 1999, helped by strong oil prices and a weaker currency, which contributed to the revival of domestic industries.

B. Equities

1. North America

10. The economic fundamentals described above provided a solid base for the rise in the market. Support was also provided by strong growth in corporate profits, large inflows of investments into equity mutual funds, share buybacks and company mergers and acquisitions. Throughout the period, investors were concerned that the market was overheated, but after a correction in the last quarter of 1998 on fears over the impact of the events in the Russian Federation and the collapse of some prominent hedge funds, equities resumed their upward trend during 1999. The strong performance of United States equities during the biennium was led by the technology sector and in particular, the high-flying Internet-related stocks, many of them in the start-up phase. The Fund avoided exposure to such investments and maintained holdings in large capitalization stocks, which had a global presence. The exposure to technology was achieved through market leaders whose earnings growth was higher than the market average. During the reporting period, the average size of core holdings in the Fund's United States equity portfolio was increased and some of the smaller positions were eliminated. The overweight position in the financial and technology sectors and the underweight position in utilities, which lagged the market, helped the portfolio's performance. The Canadian equity portfolio outperformed the Toronto Stock Exchange 300 index because of the portfolio's investment emphasis in the telecommunication and technology sectors.

2. Europe

11. During the second quarter of 1998, equity markets continued to reflect the importance being placed on companies with reliable earnings growth. Software and telecommunication firms with good earnings visibility outperformed while companies with exposure to commodities or falling Asian and emerging market demand were spurned by investors. In the third quarter of 1998, European equity markets followed the downward path of United States equity markets. These markets lost on average nearly 30 per cent from their peaks reached in July 1998, falling victim to turmoil in emerging markets and to growing evidence of a negative impact on Western economies from the Asian slowdown. Though world economies continued to show signs of weakness during the fourth quarter of 1998, equity markets remained impervious. Performance in Europe averaged 18.3 per cent in United States dollar terms, buoyed by a rebound in Asian markets and following the strong movements in the Dow Jones Index in the United States. During the first quarter of 1999, strong sector performers were telecommunications, some cyclicals and oil stocks. Mergers continued to propel performance in banking, car manufacturing and telecommunication sectors. European markets were inactive during the second and third quarters of 1999, when merger mania provided much of the performance. Telecommunication and financial companies accounted for most of the gains in the equity markets. During the first quarter of 2000, technology, media and telecommunications stocks continued to soar. The European equity portfolio outperformed Morgan Stanley Capital International (MSCI) Europe over the biennial period.

3. Asia

12. The Nikkei 225 index reached 12,879, its lowest point in the 1990s, at the peak of the banking crisis in October 1998. The crisis forced the Government of Japan to implement the largest-ever capital injection into the banking system. The private sector responded with drastic restructuring measures, including consolidation in many different sectors. Such changes promoted the conviction among large investors that the worst was over. The majority of foreign investors had been heavily underweight in Japanese equities and their efforts to raise weightings to a neutral level against the benchmark created huge demand for Japanese shares. In March 1999, net purchase of Japanese shares by foreigners exceeded 1.9 trillion yen, the highest level ever recorded. Domestic equity mutual funds also became net buyers of equities and helped absorb the supply coming from the unwinding of cross-holdings. After reaching its low towards the end of 1999, the Nikkei 225 index appreciated by nearly 47 per cent; as in other markets, the technology sector was the driving force. The communications sector recorded a total return of 275 per cent from the lowest point to the end of 1999. The market's recovery was narrowly based, however, and could be compared to the situation in the United States, where a small group of large capitalization stocks enjoyed the most gains. The Fund benefited fully from the divergence in the Japanese equity market as a large portion of the portfolio was allocated to high-quality technology stocks. The Fund's Japanese portfolio experienced a good year in 1999, when it outperformed its benchmark by over 44 per cent.

13. Stock markets in the rest of the region performed well owing to the economic recovery and strong earnings growth. Restructuring and enhancing shareholder value were widespread and export-related stocks were eagerly bought. However, by late

1999, the telecommunications, media and technology were most prominent, leading to greater correlation between the Asian stock markets and the United States equity market, especially the NASDAQ index. Over the biennium Singapore rose 46.1 per cent, but this masked an increase of 106.6 per cent from July 1998 to June 1999 owing to strength of stocks in the electronics and contract manufacturing sectors. The Hong Kong Special Administrative Region stock market suffered a large decline in August 1998, caused in part by high interest rates, deflation, the long recession and a depressed property market. However, massive stock purchases by the Government supported the market and the subsequent announcement that a high-technology park would be established in Hong Kong SAR caused a rise in telecommunications, media and technology stocks. These factors contributed to the overall 58.4 per cent increase in the Hang Seng index during the biennium. The Fund's exposure to Asian equities outside of Japan was gradually reduced in order to increase the relative weighting in Japanese equities owing to their expected performance. The Fund outperformed the MSCI Pacific Free ex-Japan index in both the developed markets and the emerging markets in the region.

4. Other markets

14. Emerging markets experienced great volatility during the biennium. In the second half of 1998, the Latin American markets struggled with an unfavourable international environment following the Asian currency crisis and the collapse of the Russian rouble. In the first quarter of 1999, Brazil allowed the free float of the real. Following the devaluation of the real, the macroeconomic environment improved. The markets performed well during 1999 owing to lower inflation and strong oil and other commodity prices. In the first quarter of 2000, the major ratings agencies upgraded Mexico's long-term debt rating to BB+ with further upgrades to investment grade expected following the Mexican election later in the year. Asia was one of the more attractive regions for emerging market investors during the biennium as earnings rose nearly 84 per cent from depressed levels caused by the 1997 financial crisis. For much of the period under review there were concerns that China would devalue its currency, thus triggering a new round of currency devaluation in the region. In 1999, the outlook for China improved, in anticipation that its entry into the World Trade Organization would prompt more rationalization and higher returns. By the first quarter of 2000, exports had helped push China's GDP to 8.1 per cent, well ahead of most forecasts. Capital controls remained in place in Malaysia, but restrictions on stock transactions began to be eased in 1999. The market rose 72 per cent from June 1998 to July 1999 and 19 per cent from July 1999 to February 2000, with the strength in 1999 caused mainly by the expected reinstatement of Malaysia into the MSCI World index.

15. The Egyptian market was one of the best performing markets in Africa, having gained 354 per cent from July 1998 to June 1999 and 93 per cent from July 1999 to February 2000 as investors grew optimistic about the privatization of State-owned companies. South Africa rose 50 per cent in United States dollars terms in 1999 as inflation and interest rates fell and the financial services sector was restructured. After a sharp decline in 1998, in the aftermath of the crisis in the Russian Federation, Eastern European markets traded in a narrow range through October 1999, then staged a sustained rally through March 2000 as a result of improved investor sentiment about emerging markets and improved economic fundamentals of the region. The size of these markets has also grown substantially because of large

privatization activities, most notably in the telecommunication sector. Hungary and Poland have emerged as the most attractive markets in the region in terms of volume, transparency and variety of investment opportunities. Some foreign investors started returning to the Russian market. The emerging market portfolio was streamlined to reduce some of the more illiquid country funds.

C. Bonds

16. The biennium commenced with mild worldwide inflation. This raised bond prices and decreased yields in 1998. In 1999, as the global economy continued to expand, inflation emerged as a real threat when the price of oil rebounded and increased by more than 100 per cent. Bond yields began to rise and United States dollar bonds suffered one of their worst years in terms of performance in 1999. Continued strong economic growth in the United States was helped by a balanced federal budget and vigilant action by the Federal Reserve Bank in increasing interest rates to stem inflation. European bond yields also increased as the economies reaped the benefits of the convergence of interest rates. However, one of the main setbacks of the bond portfolio was the weakness of the euro after trading in it began in 1999. During the year, it lost 14 per cent versus the United States dollar and 22.4 per cent versus the Japanese yen. Over the entire biennium, however, buoyed by a healthy economy, the United States dollar strengthened against most European currencies and the Japanese yen. Short-term interest rates in the United States and Europe were increased during the second half of 1999 and throughout the first quarter of 2000.

D. Real estate

17. Performance over the 1998-2000 period was largely driven by the Fund's holdings in the United States, which comprised approximately 75 per cent of the real estate portfolio. Strong returns generated by privately held United States real estate investments were partially offset by rather volatile performance of publicly traded real estate holdings. The private real estate markets have experienced a sustained period of recovery and growth over the past few years driven by a healthy economy in the United States. The performance of the Fund's European real estate investments increased during the reporting period because of improving economic and real estate market fundamentals, although currency adjustments had a negative effect. During 1998, the Fund's Asian and Australian real estate investments suffered from effects of the Asian economic crisis. By the beginning of 1999, however, the outlook became brighter, as the economies of the region began to rebound.

III. Investment returns

A. Total return

18. The market value of the Fund's assets increased to US$ 26,056 million on 31 March 2000 from $20,170 million on 31 March 1998, an increase of $5,886 million, or 29.2 per cent. The total investment return for the year ended 31 March 1999 was 11.3 per cent, and 18.0 per cent for the year ended 31 March 2000. After

adjustment by the United States consumer price index (CPI), these returns represent positive real rates of return of 9.2 per cent and 13.8 per cent respectively.

19. During the biennium, equities constituted the major contribution to performance, particularly in the United States, Japan, the United Kingdom and Scandinavia. The selection of securities had a positive contribution to total return, particularly in Japan and Europe. The performance was negatively affected by bonds, which had much lower return than equities for the year to 31 March 1999 and negative return for the year to 31 March 2000. The Fund was negatively affected by the persistent decline of the euro since its introduction in January of 1999. This negative impact was offset, to a certain degree, by the steady appreciation of the Japanese yen against the United States dollar since August of 1998. The Fund's exposure to United States equities contributed more to the total return than did any other asset class held by the Fund. The contribution of equities outside the United States to performance was especially significant for the year to 31 March 2000. As an asset class, real estate was the second-largest contributor to performance after equities.

20. The rates of return shown in the present report have been calculated by an outside consultant, using a generally accepted method that was fully explained in the report on the management of the investments submitted to the United Nations Joint Staff Pension Board at its thirty-fourth session. The calculation includes actual income received from dividends and interest as well as realized capital gains and losses. It also takes into account changes in the market value of the investments and the timing of cash flows.

21. Table 1 shows the contribution of each asset class to the total return for the years 1997 to 2000.

Table 1
Total Fund: total return based on market value for the years ending 31 March
(Percentage)

	2000	*1999*	*1998*	*1997*
Equities				
United States equities	17.4	18.4	45.5	18.9
Equities outside United States	40.0	9.7	15.4	7.2
Total equities	28.5	13.9	27.3	11.6
Bonds				
United States dollar bonds	3.2	4.8	10.6	6.2
Non-United States dollar bonds	-5.7	9.0	4.3	2.5
Total bonds	-2.5	6.5	7.0	3.6
Real estate	15.0	4.8	18.9	8.6
Short-term investments and reserves	6.8	9.9	7.0	4.4
Total Fund	**18.0**	**11.3**	**20.4**	**8.9**

22. For the year ended 31 March 1999, the highest return was provided by the equity portfolio, which had a total return of 13.9 per cent, followed by short-term investments with 9.9 per cent. For the year ended 31 March 2000, the equity portfolio again provided the highest total return of 28.5 per cent, as opposed to a negative return of 2.5 per cent provided by the bond portfolio. Real estate was again the second-best performing asset class, with a healthy total return of 15.0 per cent. The United States equities outperformed non-United States equities in 1997, 1998 and 1999, while United States bonds outperformed non-United States bonds in 1997, 1998 and 2000.

23. It must be stressed once again that short-term results have little meaning in the context of a long-term investment strategy. Short-term results are largely influenced by the volatility of securities markets and are difficult to predict and impossible to control. The management of the Fund is geared towards maintaining a careful balance between the expectations of risk and reward over the medium to long term, rather than towards taking the risk inherent in seeking very high short-term returns. These considerations are even more pertinent at the current stage, taking into account the wide fluctuations in the financial markets and currencies during the latter part of the period under review.

24. Since the reporting period, worldwide economic growth has continued to be strong, but inflation has become a reasonable risk as the price of oil has increased by more than 30 per cent. Thus, interest rates were increased by both the Federal Reserve and the European Central Bank. It now appears that the cycle of interest rate increases has come to a halt, as the economic growth in the United States appears to be slowing down. Markets experienced great volatility after the second quarter of 2000. The most volatile sector has been the technology sector within which notably certain Internet-related companies declined between 60 to 80 per cent. The fund, however, has avoided investing in these companies since they do not meet the four criteria of safety, profitability, liquidity and convertibility. The United States dollar has continued to strengthen while the performance of the euro has been disappointing.

25. The market value of the Fund as at 31 August 2000 was $25.6 billion. The asset allocation was 67.5 per cent equities, 21.7 per cent bonds, 6.9 per cent cash and short-term investments and 3.9 per cent real estate. In comparison with a market value of $26.1 billion as at 31 March 2000, this represents a decline of about 1.9 per cent. The continuing erosion of the euro caused most of the decline.

B. Long-term rates of return

26. The strategy of UNJSPF requires a focus on returns that cover periods longer than one year. During the periods shown, the highest total annualized return of 22.3 per cent occurred during the five-year period 1983-1987, owing mostly to the strong performance of the financial markets during that period. The Fund's three highest returns were also provided during that period. While the five-year moving cumulative annualized rate of return has been lower than at its peak in 1987, the Fund has experienced consecutive positive returns in the 18 years since 1983, as is shown in table 2. For the past three years, 1998, 1999 and 2000, the returns were 20.4 per cent, 11.3 per cent and 18.0 per cent respectively. The cumulative annualized total returns for the last 5, 10, 15, 20 and 25 years were approximately

14.6 per cent, 12.3 per cent, 13.4 per cent, 13.2 per cent and 11.9 per cent respectively. The cumulative annualized total rate of return over the 40-year period for which data are available was 9.3 per cent, representing a yearly real rate of return of 4.6 per cent after adjustment by the United States CPI. Detailed information on the Fund's return over the past 40 years can be found in tables 2 and 3.

27. Over the long term, equities have continued to outperform other asset classes. This trend provides the rationale for a large equity weighting in the portfolio. Within the equity portfolio, United States equities have performed marginally better than equities outside the United States over the 40-year period taken as a whole. During the same period, United States equities outperformed equities outside the United States 25 times. For the 26 years during which the performance of bonds has been calculated, the annualized returns on non-dollar bonds and those of United States dollar bonds were mixed over years. Real estate-related investments, which have been included in the portfolio since 1972, have provided stable returns for the 29 years in which the total return has been calculated. During that period, real estate has had only three years of negative return.

C. Comparisons of investment returns

28. During the year ended 31 March 1999, the Fund slightly underperformed its benchmark, which is composed of 60 per cent Morgan Stanley Capital International World Index (MSCIWI) and 40 per cent Salomon Brothers World Government Bond Index (SBWGBI), with a return of 11.3 per cent versus 11.8 per cent. For the year ended 31 March 2000, the Fund strongly outperformed the benchmark, with a return of 18.0 per cent versus 12.8 per cent. Over the last 20 years, the benchmark had a total return of 13.7 per cent compared to an annualized return of 13.2 per cent achieved by the total Fund. Chart 1 shows the total Fund's cumulative return versus the benchmark. The main reason for the Fund's slight underperformance was low weighting in equities in the earlier years of the period. The benchmark was introduced in January 1997 and therefore this is a retroactive analysis.

29. Over the last 20 years, the MSCI World Index had a total annualized return of 15.3 per cent, compared to an annualized return of 15.1 per cent achieved by the Fund's total equities. During the same period, the SBWGBI had an annualized return of 10.7 per cent, compared to an annualized return of 11.1 per cent achieved by the Fund's bond portfolio.

Table 2

Total Fund: annual total rate of return, percentages based on market value, 31 March 1962-31 March 2000

	Equities				Bonds							
Year	United States	Outside United States	Total	MSCI world index[a]	United States dollar	Non-United States dollar	Total[b]	SBGWBI bond index[c]	Real estate	Short term	Total Fund	Year
1961	18.8	37.8	19.4	-		-	8.0	-	-	-	12.7	1961
1962	12.37	0.87	11.65	-	-	-	3.91	-	-	-	6.61	1962
1963	(0.60)	(16.34)	(0.59)	-	-	-	5.49	-	-	-	4.07	1963
1964	18.18	7.48	17.45	-	-	-	2.12	-	-	-	8.24	1964
1965	10.89	8.30	10.44	-	-	-	4.41	-	-	-	6.98	1965
1966	4.53	3.22	4.31	-	-	-	(2.14)	-	-	-	0.66	1966
1967	11.76	(2.32)	8.98	-	-	-	3.97	-	-	-	7.91	1967
1968	2.86	28.30	7.46	-	-	-	(4.89)	-	-	-	1.60	1968
1969	13.35	20.07	14.64	-	-	-	2.66	-	-	-	9.09	1969
1970	(5.10)	(2.18)	(4.49)	-	-	-	1.41	-	-	-	(1.75)	1970
1971	13.94	3.31	11.46	9.28	-	-	14.10	-	-	8.73	13.53	1971
1972	14.13	34.30	18.33	16.92	-	-	9.41	-	11.58	7.15	16.98	1972
1973	5.85	20.77	9.49	13.47	-	-	7.40	-	4.78	5.92	8.55	1973
1974	(16.70)	(21.48)	(18.10)	(16.40)	-	-	1.92	-	10.18	10.70	(13.55)	1974
1975	(11.20)	11.60	(5.16)	(6.09)	6.20	14.63	6.55	-	(1.03)	12.35	0.18	1975
1976	16.37	10.76	14.58	15.59	11.22	1.91	10.02	-	5.16	7.70	13.16	1976
1977	(8.25)	(3.75)	(6.62)	(0.95)	10.40	15.20	11.06	-	3.70	5.20	(0.26)	1977
1978	(5.60)	20.31	4.16	6.11	5.62	24.39	8.72	-	8.25	7.67	6.12	1978
1979	22.36	21.67	22.07	21.27	4.70	12.50	6.63	8.04	16.86	8.56	15.07	1979
1980	10.89	(10.31)	1.08	(0.18)	(9.53)	(4.64)	(7.63)	(13.16)	17.42	11.75	(0.39)	1980
1981	43.19	39.60	41.45	34.80	14.99	9.45	12.51	20.38	14.71	15.76	26.60	1981
1982	(17.88)	(19.64)	(18.77)	(15.00)	11.08	0.40	6.20	(0.69)	17.51	17.95	(7.85)	1982
1983	40.91	23.60	33.55	31.60	32.53	14.54	24.89	20.54	7.07	12.76	27.05	1983
1984	5.08	32.46	15.66	17.30	5.46	12.42	8.67	8.20	13.33	13.07	13.01	1984
1985	20.75	(6.82)	9.54	7.20	17.86	(8.22)	4.53	5.50	13.47	3.62	8.09	1985

A/C.5/55/3

Year	Equities				Bonds				Real estate	Short term	Total Fund	Year
	United States	Outside United States	Total	MSCI world index[a]	U.S. dollar	Non-United States dollar	Total[b]	SBGWBI bond index[c]				
1986	34.95	58.48	43.44	56.02	54.30	50.33	51.21	48.70	10.75	6.95	41.52	1986
1987	21.63	43.88	30.01	43.22	9.14	32.63	22.59	17.42	12.67	11.97	24.69	1997
1998	(12.18)	2.15	(4.74)	5.81	3.26	20.24	12.65	11.42	9.19	7.67	3.10	1988
1989	13.20	10.00	11.30	13.56	2.10	(5.50)	(2.40)	0.36	8.20	10.40	5.90	1989
1990	21.54	13.21	16.57	(2.30)	10.47	2.93	6.20	3.12	12.31	9.72	11.56	1990
1991	8.9	1.2	4.5	3.2	12.5	17.4	15.0	16.2	5.1	13.1	8.9	1991
1992	11.3	0.1	4.9	(0.5)	13.7	14.0	14.0	14.0	(4.1)	6.5	7.6	1992
1993	17.3	6.7	11.2	12.7	15.9	17.7	16.9	19.0	(6.6)	7.5	11.6	1993
1994	(2.7)	24.4	12.4	14.0	3.4	10.1	7.7	6.8	0.5	3.0	9.7	1994
1995	11.1	6.5	8.1	9.8	2.9	18.6	12.9	12.1	0.0	5.0	8.7	1995
1996	30.2	15.1	20.5	20.6	8.0	3.3	5.1	5.3	10.4	4.1	14.6	1996
1997	18.9	7.2	11.6	9.8	6.2	2.5	3.6	1.2	8.6	4.4	8.9	1997
1998	45.4	15.4	27.3	32.4	10.6	4.3	7.0	5.4	18.9	7.0	20.4	1998
1999	18.4	9.7	13.9	13.0	4.8	9.0	6.5	10.0	4.8	9.9	11.3	1999
2000	17.4	40.0	28.5	21.6	3.2	(5.7)	(2.5)	(0.3)	15.0	6.8	18.0	2000

[a] MSCI — Morgan Stanley Capital International Index consists of 22 major equity markets.
[b] The proportion of non-United States dollar bonds was not significant prior to 1975.
[c] SBWGBI — Salomon Brothers World Government Bond Index consists of 18 major bond markets.

Table 3

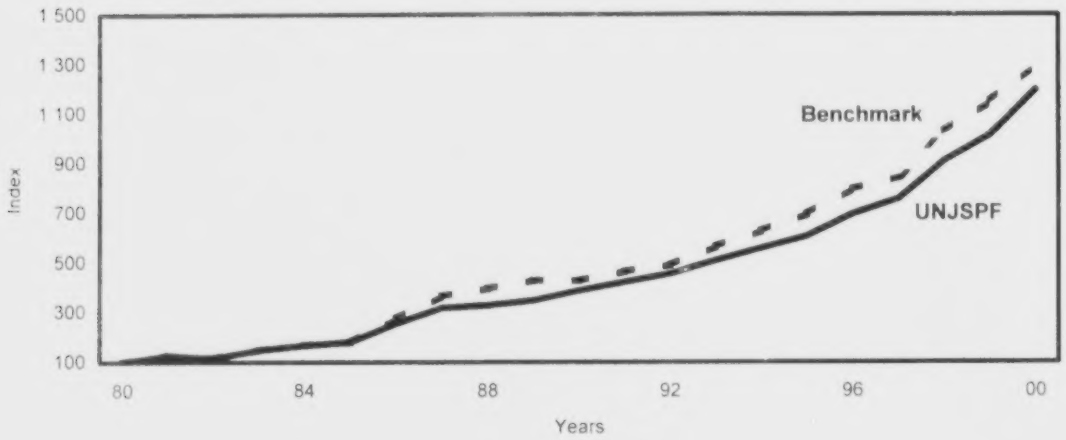
Total Fund: annual rates of return based on market value, percentages for selected periods ending 31 March

	2000	*1999*	*1998*	*5 years through 2000*	*10 years through 2000*	*15 years through 2000*	*20 years through 2000*	25 years through 2000	40 years through 2000[a]
United States equities	17.4	18.4	45.4	25.6	17.6	16.2	16.2	14.2	10.9
Equities outside United States	40.0	9.7	15.4	16.9	14.1	15.8	14.7	13.1	11.0
Total equities	28.5	13.9	27.3	20.2	15.1	15.4	15.1	13.3	10.5
United States dollar bonds	3.2	4.8	10.6	6.5	7.8	10.1	11.6	10.1	7.8
Non-United States dollar bonds[b]	(5.7)	9.0	4.3	2.6	8.8	12.0	10.3	N/A	N/A
Total bonds	(2.5)	6.5	7.0	3.9	8.0	11.1	11.1	10.0	7.8
Real estate related[c]	15.0	4.8	18.9	11.4	5.0	6.8	8.4	8.7	-
Short-term investments	6.8	9.9	7.0	6.4	6.7	7.6	8.8	8.7	-
Total Fund in United States dollars	18.0	11.3	20.4	14.6	12.3	13.4	13.2	11.9	9.3
Inflation-adjusted return (based on United States CPI)	13.8	9.2	18.9	11.8	8.6	9.9	9.0	6.7	4.6

a The Fund's performance has been calculated for the past 38 years.
b The proportion of non-United States dollar bonds was not significant prior to 1975.
c No real estate investments were held prior to 1972.

Chart 1. Total Fund: cumulative returns versus the benchmark

March 1981 to March 2000



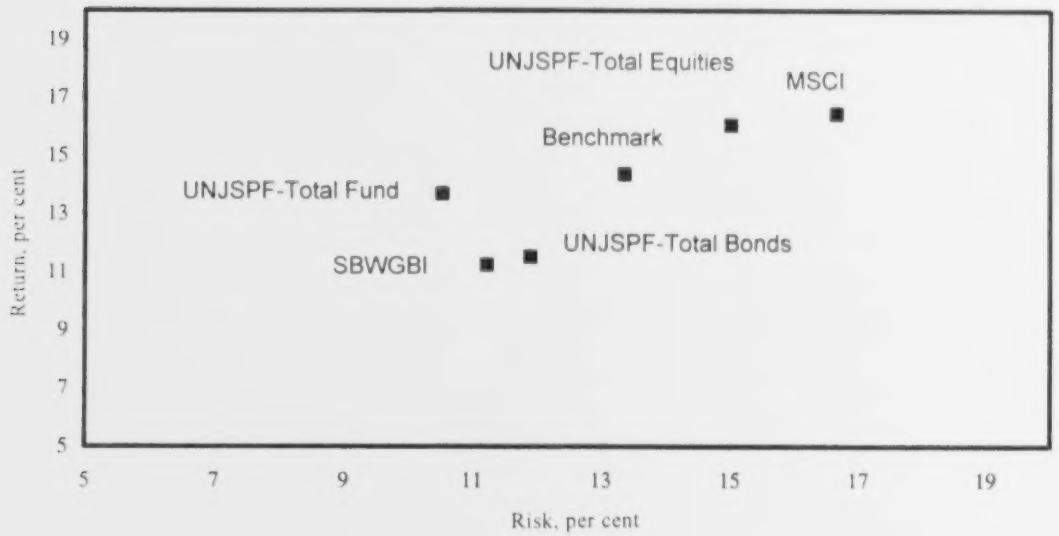
D. Risk return profile of the Fund

30. The most widely accepted definition of risk is the variability of the rate of return. The greater the uncertainty about the rate of return on an investment instrument over some future period, the greater the risk. Thus the uncertainty of the rate of return is a useful measure of risk. The amount of risk a fund has taken can be quantified by calculating the rate of return of the fund or its components, finding the average rate of return for any given period and measuring the variability of the return around the average. The biggest limitation to this measurement is that it can only be done retroactively, that is, until the rate of return is known, the variability of that return cannot be measured. The only assumption that can be made is that the future might be like the past and therefore one might use past variabilities as a measure of future variabilities.

31. Chart 2 shows the risk return profile of the Fund compared with that of the benchmark and its two components, using average annual returns over the last 20 years.

Chart 2. Total Fund: risk return profile based on average returns

March 1981 to March 2000



As mentioned above, the degree of risk in any portfolio is usually associated with the degree of uncertainty about the return. Chart 2 shows for each plot the average 20-year return for the Fund, total equities, total bonds and their respective benchmarks plotted against standard deviations of returns over the period. The rolling 20-year numbers give a very good picture of the performance of the Fund over the longer term, which meets the objective of obtaining an optimal investment return that avoids undue risk.

32. As shown by chart 2 and table 4, when compared to the benchmark, the Fund has had a better risk return profile. The Fund's return of 13.7 per cent was slightly lower than the benchmark's return of 14.4 per cent, but the Fund's volatility, 10.5 per cent, was substantially lower than that of the benchmark, 13.4 per cent. The Fund had a better risk return profile because it has a well-diversified portfolio that includes all major asset classes and its holdings are concentrated in blue chip companies.

Table 4
Risk return profile based on average annual returns, March 1980 to March 2000
(percentage)

	Risk	*20 year average return*
UNJSPF-Total Fund	**10.5**	**13.7**
Benchmark	13.4	14.4
UNJSPF-Equities Total	15.0	16.0
MSCI	16.7	16.4
UNJSPF-Bonds Total	11.9	11.5
SBWGBI	11.2	11.2

IV. Diversification

33. Diversification is defined as the spread of assets among a variety of securities or among securities in a variety of markets, with the goal of reducing risk in a portfolio without reducing the expected return. The Fund's policy of broad diversification of its investments by currency, types of asset classes and geographical areas continued to be the most reliable method of reducing risk and improving returns over long periods. The Fund continues to be the most widely diversified pension fund that maintains its accounts in United States dollars but has liabilities in several other currencies. At the end of the period under review, UNJSPF had about 48 per cent of its assets in currencies other than the United States dollar.

34. In addition to changes in the proportions of the various asset classes in the portfolio, changes were made within asset classes to implement the Fund's investment strategy and to take advantage of new trends in economic cycles and financial markets and movements in currencies and interest rates. Over the biennium, the proportion of investments in North American currencies was increased slightly to 54.7 per cent from 54 per cent, the proportion of investments in European currencies was increased to 30.9 per cent from 30 per cent, and Asian currencies were increased to 14 per cent from 11 per cent. The increased allocation to Asia resulted from the rebound in most Asian equity markets, new purchases and market appreciation in Japan. The broad diversification of the Fund reduces risk across currencies and markets.

35. UNJSPF is unique among major pension funds in its commitment to global investment. Chart 3 shows the diversification of the assets of the Fund by types of investment for the past three years, while charts 4 and 5 show the diversification by geography and by currency for the past three years and one year respectively.

Chart 3. Total Fund: diversification of assets

March 1998, 1999 and 2000

(percentage)

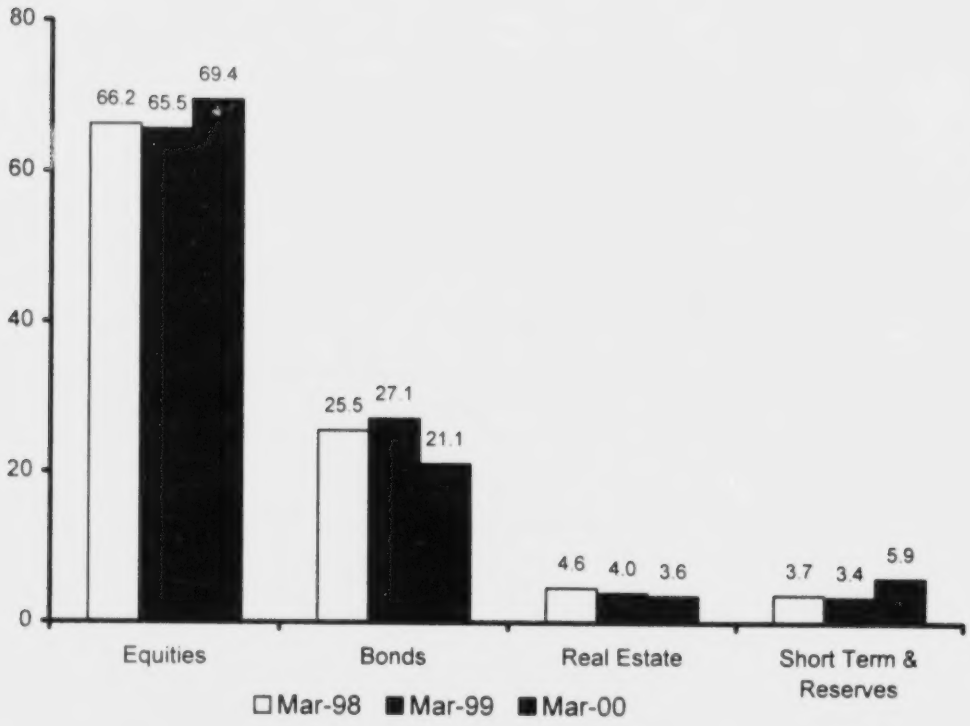


Chart 4. Total Fund: geographic diversification

March 1998, 1999 and 2000

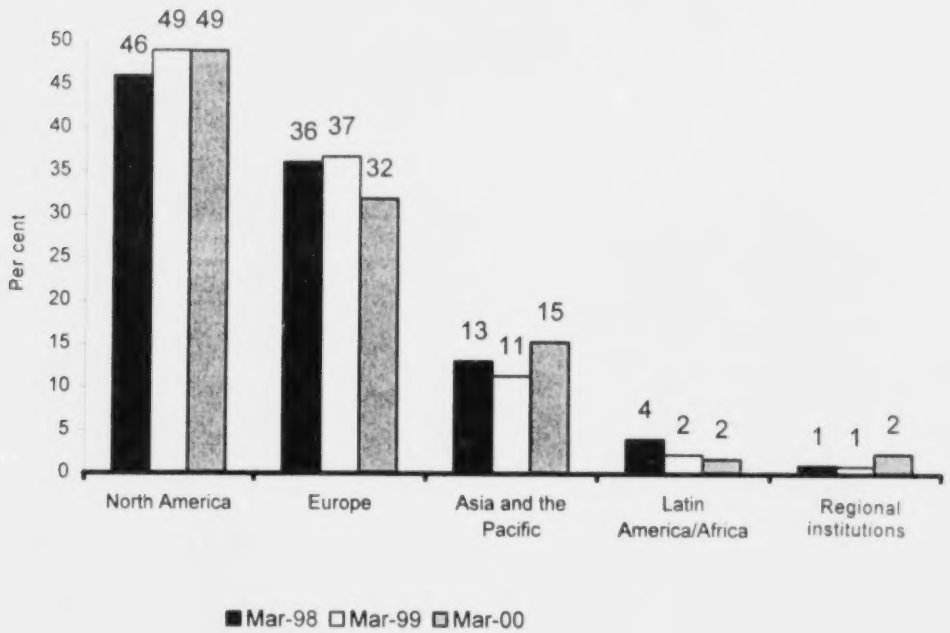
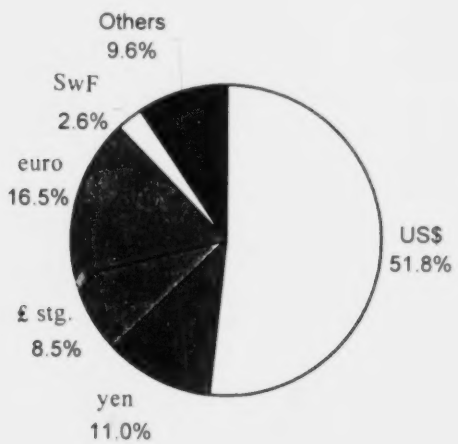


Chart 5. Total Fund: currency diversification, March 2000



36. In terms of geographical diversification, the proportion of the Fund invested in North America rose to 49 per cent in March 2000 from 46 per cent in March 1998. Investments in Europe were decreased to 32 per cent from 36 per cent, while in Asia and the Pacific, the proportion of investments rose slightly to 15 per cent from 13 per cent during the same period. With geographic changes, currency diversification also changed, as discussed above. Table 5 provides detailed breakdowns of the diversification by geography.

Table 5
Total Fund: countries/areas of investment[a]
Market value as at 31 March 2000
(In millions of US dollars)

Countries/areas	*Total*	*Percentage*
Argentina	37.0	0.14
Australia	300.8	1.15
Austria	26.4	0.10
Belgium	53.8	0.21
Brazil	104.0	0.40
Canada	784.4	3.01
Chile	21.5	0.08
China	6.8	0.03
Denmark	171.9	0.66
Egypt	6.5	0.02
Emerging markets	50.4	0.19
Finland	512.7	1.97
France	792.2	3.04
Germany	1 400.4	5.37
Ghana	1.6	0.01
Greece	44.0	0.17
Hong Kong SAR	201.8	0.77
Hungary	12.0	0.05
Iceland	14.5	0.06
India	37.9	0.15
Ireland	180.2	0.69
Israel	23.5	0.09
Italy	437.4	1.68
Japan	2 930.7	11.25
Jordan	5.9	0.02
Kenya	0.8	0.00
Malaysia	59.5	0.23
Mauritius	2.0	0.01
Mexico	160.9	0.62

Countries/areas	*Total*	*Percentage*
Netherlands	589.2	2.26
New Zealand	111.0	0.43
Norway	34.7	0.13
Pakistan	0.0	0.00
Peru	2.5	0.01
Philippines	22.3	0.09
Poland	18.2	0.07
Portugal	44.8	0.17
Qatar	10.7	0.04
Republic of Korea	236.4	0.91
Saudi Arabia	5.0	0.02
Singapore	102.1	0.39
Slovenia	25.0	0.10
South Africa	7.1	0.03
Spain	334.2	1.28
Sweden	588.5	2.26
Switzerland	460.9	1.77
Taiwan Province of China	10.9	0.04
Tunisia	3.0	0.01
Turkey	15.5	0.06
United Kingdom	2 256.3	8.66
Zimbabwe	0.8	0.00
Regional institutions (Africa)	89.9	0.35
Regional institutions (Asia)	153.1	0.59
Regional institutions (Europe)	449.4	1.72
Regional institutions (Latin America)	127.0	0.49
International institutions	174.7	0.67
Total outside United States	**14 320.4**	**55.0**
United States	11 735.5	45.0
Total Fund	**26 055.8**	**100.0**

[a] Country of investment is generally based on the domicile of the issuer. Convertible securities are classified according to the currency into which they are convertible. Various investment trusts, which trade in currencies other than the currencies of investments, are classified under the countries.

37. Diversification in terms of asset class, currency and region had a significant impact on the performance of the Fund. Investing in only one currency would have had a negative impact on the performance, as the movements of the currencies against the dollar are not synchronized. There were several times when the total returns were negative in local currencies but positive in dollar terms.

V. Investments in developing countries

38. In its resolution 36/119 of 10 December 1981 on the investments of the United Nations Joint Staff Pension Fund, the General Assembly endorsed the policy of diversification of the investments of the Fund in developing countries, wherever this serves the interests of the participants and beneficiaries, in accordance with the four criteria of safety, profitability, liquidity and convertibility. The Fund has continued its efforts, in accordance with the established investment criteria, to identify appropriate investment opportunities. Direct and indirect investments in developing countries amounted to $1,124,938 million at cost on 30 June 2000, a decrease of 32.1 per cent since 30 June 1998. Details of the investments are provided in table 6. Most of the decrease resulted from the sale of country funds in Asia. In addition, bonds were sold in South Africa and Malaysia and there were bonds issued by regional institutions that matured. Development-related investments accounted for approximately 6.8 per cent of the Fund's assets at book value; about 32.4 per cent of these holdings were denominated in currencies other than the United States dollar.

39. The Investment Management Service continues to have close contacts with the World Bank, the International Monetary Fund, regional development banks and other sources in order to take advantage of investment opportunities in developing countries. Investment visits were undertaken in Africa, Asia, Eastern Europe and the Middle East during the period under review and new positions were initiated towards the end of the period. The current investment environment is once again becoming more favourable for emerging market investments and the Fund is seeking to increase its exposure through suitable investment instruments while taking into account the investment criteria of the Fund.

Table 6
Development-related investments
Book value as at 30 June 1998 and 30 June 2000
(Thousands of United States dollars)

Regions countries	*United States dollars*	*Other currencies*	*Total 2000*	*Total 1998*
Africa				
Egypt	7 020		7 020	7 020
Ghana	7 122		7 122	7 122
Kenya	0.0	219	219	219
Mauritius	3 000	0.0	3 000	3 000
South Africa	7 827	0.0	7 827	34 639
Tunisia	4 350	0.0	4 350	4 350
Zimbabwe	0.0	3 088	3 088	3 088
Africa emerging market funds	5 868		5 868	8 752
	35 187	3 307	38 494	68 190
Development institutions	85 916		85 916	85 916
Total Africa	**121 103**	**3 307**	**124 410**	**154 106**

Regions/countries	*United States dollars*	*Other currencies*	*Total 2000*	*Total 1998*
Asia				
China	**10 605**	**9 932**	20 537	12 779
Hong Kong SAR	**8 880**	**52 864**	61 744	86 510
India	**23 171**	**1 841**	25 012	27 543
Indonesia			0.0	1 875
Jordan		**5 391**	5 391	5 391
Malaysia		**40 038**	40 038	81 734
Pakistan		**0.0**	0.0	2 375
Philippines	**2 928**	**35 252**	38 180	66 933
Qatar	**11 000**		11 000	11 000
Republic of Korea	**127 960**		127 960	153 422
Saudi Arabia	**5 125**		5 125	5 125
Singapore		**55 254**	55 254	78 414
Regional funds	**29 669**	**26 788**	56 457	103 205
	219 338	**227 360**	446 698	636 306
Development institutions	**19 751**		19 751	76 117
Total Asia	**239 089**	**227 360**	**466 449**	**712 723**
Europe				
Turkey		**4 435**	4 435	4 435
Regional funds	**11 519**	**36 549**	40 068	195 143
Total Europe	**11 519**	**40 984**	**52 503**	**199 578**
Latin America				
Argentina	**36 252**		36 252	55 165
Brazil	**57 340**	**48 604**	105 944	88 642
Chile	**27 251**		27 251	40 228
Colombia			0.00	296
Mexico	**63 309**	**41 961**	107 270	87 310
Peru	**923**	**2 006**	2 929	2 928
Regional funds	**5 463**		5 463	19 490
	190 537	**92 571**	285 108	294 059
Development institutions	**52 709**	**0.00**	52 709	106 549
Total Latin America	**243 246**	**92 571**	**337 817**	**400 608**
Other development institutions (IBRD)	**143 757**	**0**	143 757	190 279
Total development-related	**760 715**	**364 224**	**1 124 938**	**1 657 294**

VI. Conclusion

40. The Fund remains committed to its strategy of wide diversification by asset class, geography and currency. Allocation to equities during the reporting period was increased because of the expected investment environment, such as falling interest rates, low inflation and healthy growth in corporate profits in most major markets. This strategy proved beneficial to the Fund as the equity portfolio outperformed the bond portfolio and contributed most to the Fund's positive return. It also helped to cushion the Fund during volatile swings in the financial markets, such as those seen recently. Most of the securities in which the Fund is invested are large multinational companies with a sound management and financial base.

41. The long-term strategy to increase the Fund's equity exposure has reflected the changed global investment environment in which pension funds are investing more in equities, partly because less government debt is being issued as fiscal deficits are shrinking and partly because corporations are increasing the use of equity financing, but also because equities have provided better returns. However, the bond portfolio has generated more income than the equity portfolio. The combination of high capital appreciation from equities and high income from bonds has been beneficial to the Fund.

42. The Fund remains conscious of investment risks and of the need to adhere to a strict discipline in tailoring its portfolios to ensure that it meets the goal of providing a real return on its investments without incurring undue risk. This is achieved by maintaining a commitment to broad diversification of assets across currencies, geography and types of investments and to the criteria of safety, profitability, liquidity and convertibility. The total return for the year ended 31 March 1999 was 11.3 per cent; for the year ended 31 March 2000, the total return was 18.0 per cent. The period reviewed represented the seventeenth and eighteenth consecutive years of positive investment returns for the Fund.